OVERVIEW

Our Bank has established a comprehensive and vertically-integrated risk management system which includes the Board of Directors, the Board of Supervisors, the senior management, risk management-related specialized committees and departments. Together, they form the overall risk management apparatus. The Board of Directors and its subordinate committees are responsible for determining our Bank's overall risk management and internal control policies. The Board of Supervisors and its subordinate committees supervise and evaluate the efficiency and effectiveness of the operation of the risk management. The senior management and its committees implement specific standards on the major issues in respect to the risk management, and various departments at our Bank's head office, led by the Comprehensive Risk Management Department, conduct our Bank's day-to-day risk management.

Our Bank's risk management system operates on the principles of comprehensiveness, compatibility, effectiveness and independence.

- Comprehensiveness: our Bank's risk management mechanism strives to encompass every perceivable risk in our business operations;

- Compatibility: our Bank's risk management is compatible with the nature and complexity of our Bank's businesses and operations. The policies and procedures designed and implemented are compatible with the long-term development strategy, our Bank's capital level and risk tolerance;

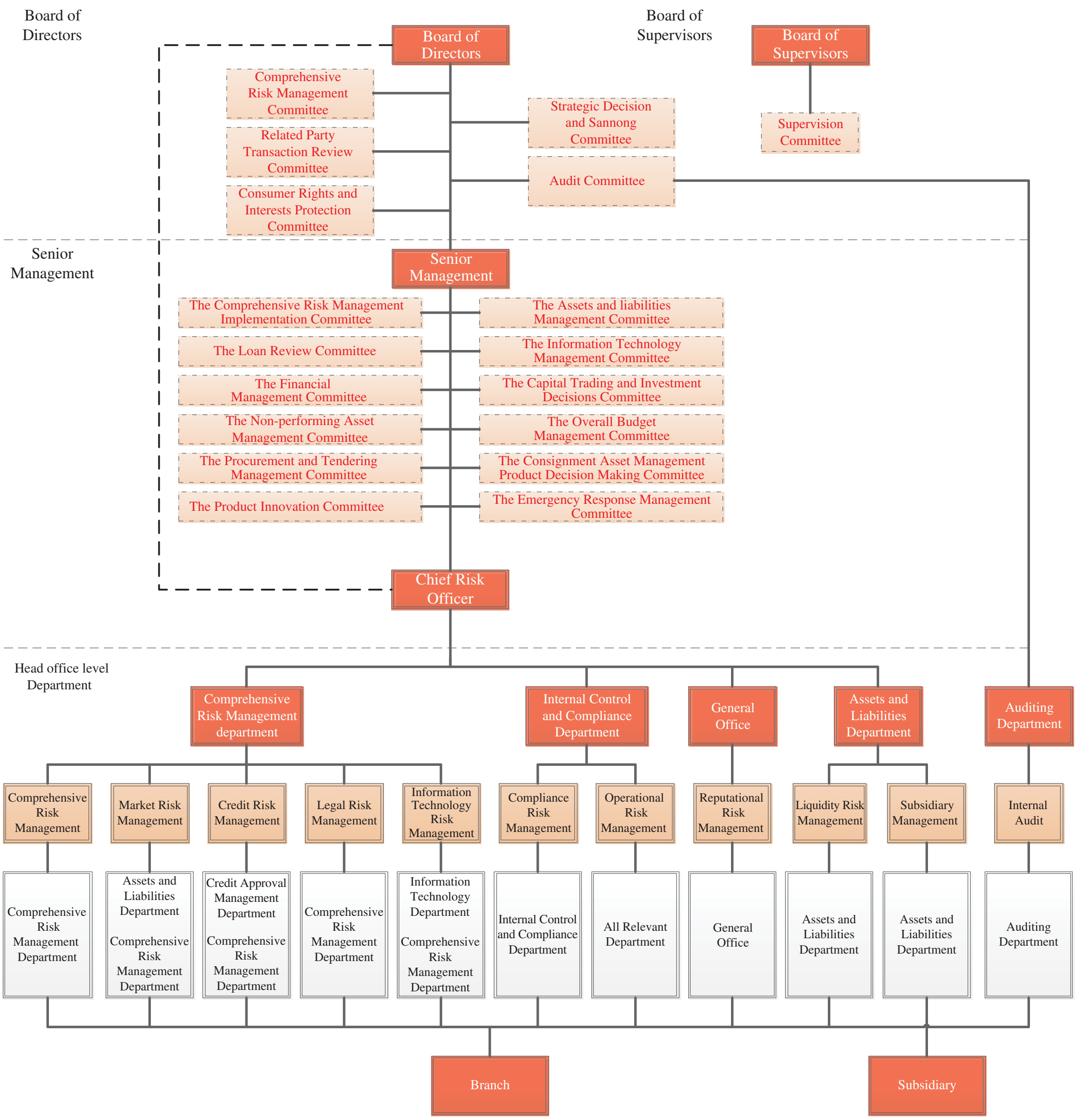
- Effectiveness: duty and responsibilities are unambiguously allocated and assigned with effective check and balance among various committees, departments and positions under our Bank's comprehensive risk management mechanism; and

- Independence: our Bank's Board of Directors, Board of Supervisors, senior management and their respective subordinate committees exercise their respective duties independently through a clearly defined authorization mechanism, along with dedicated and direct reporting channels. Such dedicated and direct reporting channels have also ensured the independence of the departments responsible for risk management from our Bank's business operations.

Our Bank strives to adhere to and continue to improve the established comprehensive risk management mechanism which deals primarily with the market risk, credit risk, liquidity risk, information technology risk, operational risk, legal and compliance risk, reputation risk, subsidiaries risk and other risks. Our Bank's comprehensive and vertically-integrated risk management structure, strict implementation, and constant internal monitoring together form the basis of our Bank's risk management mechanism.

RISK MANAGEMENT FRAMEWORK

As of the Latest Practicable Date, our Bank's organizational structure of risk management was as follows:



Through the continuous innovation which has strengthened our Bank's risk management system, our Bank has built a tripartite risk management system based on procedure, technology and culture.

Our Bank has also formulated a multi-dimensional cooperative risk management system, which allocates risk management duties at the core management levels, namely, the Board of Directors, the Board of Supervisors, and the senior management. In particular, our Bank has appointed a chief risk management officer at the head office to further enhance our Bank's ability to plan and allocate risk management.

Our Bank continues to solidify the "three lines of defense (三道防線)" of risk management structure which comprehensively addresses potential risks associated with our Bank's businesses. The three lines of defense structure is to divide the relevant departments of each type of risk management from the perspective of risk prevention and control.

- the First Line of Defense refers to our Bank's frontline business departments and business outlets which identify and report risk exposures at the front end of our Bank's operation;

- the Second Line of Defense refers to departments responsible for risk management, which are responsible for designing the risk management mechanism, policies and procedures; and

- the Third Line of Defense refers to the Audit Department which conducts independent supervision and assessment of the effectiveness and adequacy of overall risk management procedures and measures.

The Comprehensive Risk Management Department is responsible for the centralized and comprehensive coordination and management of our Bank-wide risk exposure and it has established various working groups to specifically address risks associated with each line of our Bank's business. Our Bank complements our horizontal risk management at the head office level with a vertical line of risk management at the branch level.

Our Bank has established an internal control review system at our Bank's head office and branches to investigate, analyze and resolve internal control issues. In addition, our Bank built an effective information technology support system including credit risk rating system to facilitate timely updates and adjustments of our Bank's risk management system.

BOARD OF DIRECTORS AND ITS SPECIALIZED COMMITTEES

Our Bank's Board of Directors is at the center of our Bank's risk management. It is mainly responsible for (i) the comprehensive risk management of the Bank and compliance of its operation, liquidity risk management, reputation risk management, consolidation management as well as the consumer rights protection functions of the Bank; (ii) creation of risk management culture and formulation of comprehensive risk management policy, determination of risk tolerance, risk appetite, internal control, reputation risk, financial innovation risk management, event risk management as the basic structure of the risk management of the Bank.

Our Bank's Board of Directors performs its risk management duties through the Comprehensive Risk Management Committee (全面風險管理委員會), the Audit Committee (審計委員會), the Related Party Transaction Control Committee (關聯交易控制委員會), and the Strategic Decision and Sannong Committee (戰略決策和三農委員會) and Consumer Rights Protection Committee (消費者權益保護委員會) with the support from the senior management and its risk management related committees and departments at our Bank's head office, branches, and sub-branches.

Comprehensive Risk Management Committee (全面風險管理委員會)

The Comprehensive Risk Management Committee is primarily responsible for (i) studying and implementing relevant national economic and financial policies and regulations as well as rules and regulations of the relevant regulatory bodies, guiding the formulation of our Bank's comprehensive risk management framework, as well as our Bank's risk strategy and basic risk management policies; (ii) contracting external party to supervise our Bank's management on credit risk, market risk, operation risk, liquidity risk, legal compliance risk, information technology risk and reputation risk; (iii) regularly assessing the overall situation and effectiveness of our Bank's risk management and putting forward suggestions on improving our Bank's risk management and internal control; (iv) encouraging the senior management to take necessary measures to effectively identify, assess, monitor, control and mitigate risks; (v) ensuring that our Bank's risk management system is subject to the effective review and supervision of the Audit department; (vi) reviewing our Bank's asset and liability management policies and implementation; (vii) organizing and guiding our Bank's case prevention work; and (viii) regularly through independent interviews with the compliance director and other effective ways, understanding the implementation of the compliance policy and existing problems, timely putting forward corresponding opinions and suggestions to the Board of Directors or senior management, and supervising the effective implementation of the compliance policy.

The Comprehensive Risk Management Committee is responsible to the Board of Directors, and the proposal of the committee is submitted to the Board of Directors for deliberation and decision.

As of the Latest Practicable Date, the Comprehensive Risk Management Committee had four members and Mr. Ye Jianguang served as its chairperson.

Related Party Transaction Control Committee (關聯交易控制委員會)

The Related Party Transaction Control Committee is primarily responsible for examination, supervision and review of related party transactions in which our Bank has engaged.

When dealing with related party transactions, the Related Party Transaction Control Committee is primarily responsible for (i) the management and control of related party transactions; (ii) formulating standards and procedures under which the related party transactions are evaluated; (iii) informing the Board of Directors and the Board of Supervisors of details of related party transactions; and (iv) other matters that are required under the relevant laws and regulations.

Our Bank considers transactions with a related party to be major related party transactions if a single transaction amount accounts for more than 1% of our Bank's net capital, or a series of transactions with a related party whose aggregate transaction amount accounts for more than 5% of our Bank's net capital (for calculation of the amount of transactions between a related individual and the Bank, the transactions between the family members of such person and the Bank shall also be included; for calculation of the amount of transactions between a related legal person or other entity and the bank, the transactions between its affiliated legal person or other entity and the Bank shall also be included). Major related party transactions are normally reviewed by the Related Party Transaction Control Committee and submitted to the Board of Directors for approval thereafter. Independent directors are required to express their opinions on the fairness of major related party transactions and the completeness of implementation of internal approval procedures. Major related party transactions are then reported to the Board of Supervisors. Such transactions will also be timely reported to the relevant banking regulatory authorities.

As of the Latest Practicable Date, the Related Party Transaction Control Committee had four members and Mr. Shi Wenfeng served as its chairperson.

Strategic Decision and Sannong Committee (戰略決策和三農委員會)

Our Bank's Strategic Decision and Sannong Committee is primarily responsible for (i) formulating business management objectives and long-term development strategic plan; (ii) studying and making suggestions on the major investment and financing plans; (iii) studying and making suggestions on major capital operation and asset operation projects; (iv) studying and making suggestions on other major issues affecting the development of our Bank; (v) supervising and inspecting the implementation of our Bank's annual business plan and investment plan; (vi) formulating our Bank's green credit development strategy, reviewing the green credit objectives and green credit reports formulated by the senior management and submit reports to the Board of Directors for review and approval; (vii) formulating our Bank's business development strategy and plan for agriculture, rural areas and farmers, reviewing and evaluating our Bank's annual financial service resource allocation plan for agriculture, rural areas and farmers; (viii) guiding the formulation of business operation plans and relevant systems for agriculture, rural areas and farmers; and (ix) guiding the innovation and development of financial services and products for agriculture, rural areas and farmers. The Strategic Decision and Sannong Committee reports to the Board of Directors, and the proposal of the committee will be submitted to the Board of Directors for deliberation and decision.

As of the Latest Practicable Date, the Strategic Decision and Sannong Committee had five members and Mr. Wang Yaoqiu served as its chairman.

Audit Committee (審計委員會)

The Audit Committee is primarily responsible for (i) examining our Bank's financial and accounting policies, financial position and financial reporting procedures and their implementation; (ii) review our Bank's risk and compliance status; (iii) auditing and supervising our Bank's annual financial statements, annual reports, audited annual financial reports and accounts, interim reports and quarterly report (if published) of our Bank to review significant financial reporting judgments contained in them, and preparing an evaluation report on the truthiness, completeness and accuracy of the audited financial reports, determining whether such financial reports will be submitted to the Board of Directors and liaise with external auditing party at least twice per annum; (iv) review the reports before submission to the board, focus particularly on issues such as any changes in accounting policies and practices, major judgmental areas, significant adjustments resulting from audit, the going concern assumptions and any qualifications, compliance with accounting standards; and compliance with the Listing Rules and legal requirements in relation to financial reporting; and to consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the issuer's staff responsible for the accounting and financial reporting function, compliance officer or auditors; (v) review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response; and to ensure that the Board of Directors will provide a timely response to the issues raised in the external auditor's management letter; approving internal audit regulations, medium and long-term audit plans, and annual work plans; (vi) reporting the audit work to the Board of Directors on a regular basis, and notify such progress to the senior management and Board of Supervisors; (vii) supervising the senior management to timely rectify issues identified in the audit findings and implementing the audit recommendations; (viii) reassessing any objections to the audit; (ix) proposing to the Board of Directors to investigate the responsibilities of individuals who are responsible for internal auditing and the person who is directly responsible; (x) make recommendations to the Board of Directors on the appointment, re-appointment, removal or replacement of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and to handle any questions in relation to the resignation or removal of external auditors; (xi) review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; and discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences; (xii) develop and implement policy on engaging an external auditor, including any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally, to supply non-audit services; and report to the Board of Directors, identifying and making recommendations on any matters where action or improvement is needed; (xiii) supervising the formulation and implementation of our Bank's internal audit system; (xiv) act as the key representative body for overseeing our relations with the external auditor, responsible for the communication between internal audit and external audit and to monitor their relationship; (xv) ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within our Bank, and to review and monitor its effectiveness; (xvi) to consider major investigation findings on risk management and internal control matters as delegated by the Board of Directors or on its own initiative and management's response to these findings; (xvii) report to the Board of Directors on the matters under paragraph C.3 of the Corporate Governance Code under the Listing Rules; and (xviii) reviewing our Bank's internal control system and auditing major related party transactions.

The Audit Committee reports to the Board of Directors, and its proposal shall be submitted to the Board of Directors for deliberation and resolutions.

As of the Latest Practicable Date, the Audit Committee had four members and Mr. Xu Zhi served as its chairman.

Consumer Rights Protection Committee (消費者權益保護委員會)

The Consumer Rights Protection Committee is mainly responsible for: (i) submitting the work report and annual report on consumer rights protection to the Board, conducting relevant works and discussing and deciding relevant matters as delegated by the Board, as well as studying the major issues and important policies for consumer interests protection; (ii) guiding and supervising the establishment and improvement of consumer interests protection system; (iii) supervising the comprehensiveness, timeliness and effectiveness of the works conducted by the senior management and consumer interests protection department based on the regulatory requirements as well as the implementation of strategies, policies and objectives of consumer interests protection and the relevant work progress; (iv) holding regular work meetings for consumer interests protection and urging senior management and the relevant departments to timely rectify the issues identified during the course of reform; and (v) other matters related to the duties of the committee as required under the laws, regulations and relevant regulatory system or authorized by the Board.

As at the Latest Practicable Date, the Consumer Rights Protection Committee had four members and Mr. Fu Qiang served as its chairman.

THE BOARD OF SUPERVISORS AND ITS SPECIALIZED COMMITTEE

Our Bank's Board of Supervisors is mainly responsible for overseeing the performance of the Board of Directors and the senior management in accordance with the relevant laws and regulations and our Bank's articles of association, as well as the financial performance, internal control and risk management of our Bank. The Board of Supervisors achieves such objective through its independent advices and opinions which are formed through its participation in meetings of the Board of Directors, its independent research, and its interviews with our Bank's staff and key personals.

The Board of Supervisors specifically supervises the Board of Directors and its members on their (i) compliance with laws, regulations, rules and other regulatory documents; (ii) compliance with the articles of association, the procedure of the general meeting of shareholders, the procedure of the Board of Directors in implementing the relevant resolutions of the general meeting of shareholders and the Board of Supervisors and in executing major business management decisions; (iii) efforts made to continuously improve corporate governance, development strategy, business philosophy, capital management, compensation management, information disclosure and safeguard the interests of customers and other stakeholders; and (iv) effective operation of each committee under the Board of Directors.

The Board of Supervisors specifically supervises the performance of the senior management and its members on their (i) compliance with laws, regulations, rules and other regulatory documents; (ii) compliance with our Bank's articles of association and the authorization of the Board of Directors in implementing the resolutions of the general meeting of shareholders, the Board of Directors and the Board of Supervisors, and performing the operation and management responsibilities within the scope of their respective functions and powers; and (iii) continuous improvement of operation management, risk management, and internal control.

When the acts of Directors or members of the senior management damage our Bank's interests, the Board of Supervisors has the power and authority to require such directors or members of the senior management to make corrections. For instance, if the Board of Supervisors finds that the Board of Directors or the senior management fails to implement the principle of prudent accounting, to strictly calculate the interest receivable, or to make sufficient reservation for bad debts, it has the power and authorization to require corrections.

Supervisory Committee (監督委員會)

The Supervisory Committee under the Board of Supervisors is established by the Board of Supervisors in accordance with our Bank's articles of association. It carries out its work in accordance with these rules of procedure and the authorization from the Board of Supervisors. It is mainly responsible for formulating specific plans for the inspection and supervision of our Bank and implementing relevant inspections.

The Supervisory Committee is mainly responsible for formulating plans for supervision of our Bank's financial activities, and organizing their implementation; supervising the Board of Directors to establish sound business philosophy, value standards and formulate development strategies in line with our Bank's actual development direction; and supervising and inspecting our Bank's business decision-making, risk management and internal controls.

The Supervisory Committee is responsible to the Board of Supervisors, and the proposals of the Supervisory Committee shall be submitted to the Board of Supervisors for deliberation and approval.

As of the Latest Practicable Date, the Supervisory Committee consisted of four members and was chaired by Mr. Zhang Bangyong.

SENIOR MANAGEMENT AND ITS SPECIALIZED COMMITTEES

At the senior management level, our Bank's risk management system consists of the Comprehensive Risk Management Execution Committee (全面風險管理執行委員會), the Loans Review Committee (貸款審查委員會), Financial Management Committee (財務管理委員會), the Non-performing Asset Management Committee (不良資產管理委員會), Procurement and Tendering Management Committee (採購與招標管理委員會), the Assets and Liabilities Management Committee (資產負債管理委員會), the Information Technology Management Committee (信息科技管理委員會), Proprietary Trading and Investment Decision Committee (資金交易與投資決策委員會), the Budget Management Committee (全面預算管理委員會), Consignment Asset Management Products Decision Committee (代銷資產管理產品決策委員會), Emergency Response Management Committee (突發事件應對管理委員會) and Product Innovation Committee (產品創新委員會).

Comprehensive Risk Management Execution Committee (全面風險管理執行委員會)

The Comprehensive Risk Management Execution Committee is the primary risk management organization under our Bank's senior management. In accordance with the risk management strategy formulated by the Board of Directors and the conditions of our Bank, the Comprehensive Risk Management Implementation Committee determines the systems and measures in respect of the management of credit risk, market risk, operation risk, liquidity risk, legal risk, compliance risk, information technology risk, reputation risk and other important matters relating to risk management.

The Comprehensive Risk Management Execution Committee has five sub-committees, namely the Business Continuity Sub-committee (業務連續性管理領導小組), Legal Risk Sub-committee (法律風險工作領導小組), Reputation Risk Sub-committee (聲譽風險工作執行小組), Work Safety Sub-committee (安全生產工作領導小組) and Risk Debt Securities Disposal Sub-committee (風險債券處置小組).

As of the Latest Practicable Date, the Comprehensive Risk Management Execution Committee consisted of five deputy chairmen, 22 members and was chaired by Mr. Fu Qiang.

Loans Review Committee (貸款審查委員會)

The Loans Review Committee is a deliberative and decision-making body, responsible for reviewing and approving the credit businesses on- and off- the balance sheet loans in RMB and foreign currencies, and is responsible for our Bank-wide loan policy, the industry credit access, online loans and other matters.

The Loans Review Committee consists of a Large Loans Review Committee (大額貸款審查委員會), a Medium Loans Review Committee (中額貸款審查委員會) and a Inclusive Financial Project Review Committee (普惠金融項目審查委員會). The basic principles of the Loans Review Committee are: professional examination, collective deliberation, careful decision-making and independent voting.

As of the Latest Practicable Date, the Loans Review Committee consisted of 19 members and was chaired by Mr. Ye Jianguang.

Assets and Liabilities Management Committee (資產負債管理委員會)

The Assets and Liabilities Management Committee is a dedicated committee under the leadership of the senior management to strengthen the asset and liability management. The Assets and Liabilities Management Committee is responsible for (i) deliberating our Bank's asset and liability management policies, systems, objectives and operational strategies and reviewing our Bank's annual asset and liability plan, and asset and liability analysis report; (ii) deliberating the general and structural control plans relating to the assets and liability management, analyzing the bank-wide asset quality, liquidity status, interest rate sensitivity, and the overall situation of other risks that may affect our Bank's asset and liability structure and allocation; (iii) reviewing policies, systems and reports on capital management; (iv) deliberating our Bank's liquidity management policies and systems; (v) deliberating our Bank's account book interest rate risk and exchange rate risk management policies and systems, and examining and approving our Bank's exposure limits and management strategies of interest rate risk and exchange rate risk; and (vi) deliberating our Bank's annual, quarterly and other major investment and financing plans, policies and strategies and the asset securitization and other balance sheet changes.

As of the Latest Practicable Date, the Assets and Liabilities Management Committee consisted of 18 members and was chaired by Mr. Fu Qiang.

Information Technology Management Committee (信息科技管理委員會)

Under the guidance of our Bank-wide business development strategy formulated by the Board of Directors, the Information Technology Management Committee is responsible for organizing and coordinating the bank-wide IT construction planning, data governance, information technology risk and information security management.

The Information Technology Management Committee consists of Information Technology Management Office (信息科技管理辦公室) and Data Governance Office (數據治理辦公室).

The Information Technology Management Office is responsible for the research and formulation of major information technology proposals, and organizing the implementation of our Bank's information security management.

The Data Governance Office is responsible for formulation of data governance related systems, preparation, implementation and coordination of data governance standards, daily monitoring of data quality, promotion of data quality management by all departments at the head office and branches, and planning, definition, collection, application, storage, integration and management of metadata.

As of the Latest Practicable Date, the Information Technology Management Committee consisted of 19 members and was chaired by Mr. Fu Qiang.

Non-performing Asset Management Committee (不良資產管理委員會)

The Non-performing Asset Management Committee makes collective deliberation and forms resolution on the non-performing asset disposal business within its authority in accordance with national laws, regulations, non-performing asset disposal policies and systems, as well as the business plan determined by the Board of Directors. The Asset Disposal Review Committee is also responsible for reviewing the system and authority of disposal of non-performing assets and supervision of the recovery, revitalization, preservation and disposal of non-performing assets by relevant departments and branches.

As of the Latest Practicable Date, the Non-performing Asset Management Committee consisted of five members and three alternate members and was chaired by Mr. Ye Jianguang.

Financial Management Committee (財務管理委員會)

Under the leadership of our Bank's management team, the Financial Management Committee carries out examination and approval of our Bank's annual financial expenditure budget, mid-year budget adjustment, financial expenditure on project approval, property disposal in accordance with its prescribed authority; examining, analyzing and supervising the financial matters; deliberating and approving the financial budget, expenditure and property disposal; and coordinating and solving the contradictions in financial expenses during the process of budget management.

The Financial Management Committee is accountable to the operation management team, and is responsible for the implementation of budget control and financial management with a focus on enhancing the economic benefits of our Bank in order to protect our legitimate interests.

As of the Latest Practicable Date, the Financial Management Committee consisted of four members and ten expert members and was chaired by Mr. Chen Wei.

Proprietary Trading and Investment Decision Committee (資金交易與投資決策委員會)

The Proprietary Trading and Investment Decision Committee is mainly responsible for: (i) analyzing the development of proprietary trading and investment business, and assessing the proprietary trading and wealth management asset and liability structure as well as the credit risk, liquidity risk, interest rate risk and profitability of the current period; (ii) analyzing the factors and variables that may affect the macro economic and financial policies, and studying and forecasting the direction of market changes; (iii) formulating the strategies regarding the adjustment of asset and liability structures of proprietary trading and wealth management as well as the investment and transaction strategy for proprietary trading and investment businesses pursuant to our actual situation and market research; (iv) reviewing the strategies regarding the asset and liability structure of wealth management business; (v) reviewing the strategies of derivative products and their complementary businesses; (vi) reviewing and verifying the qualified list of managers and business limits of specific asset management plans and public funds; and (vii) reviewing the negative list of debt securities issuers and the black list and white list of transaction counterparties.

As of the Latest Practicable Date, the Proprietary Trading and Investment Decision Committee consisted of 11 members and eight alternate members and was chaired by Mr. Fu Qiang.

Budget Management Committee (全面預算管理委員會)

The Budget Management Committee is responsible for preparing and deliberating our Bank-wide budget, carrying out budget management and combining the budget plan with our Bank's development strategies. The

Budget Management Committee is required to notify the chairman of the Board of Directors and the chief supervisor in advance of its meeting and submit relevant meeting materials, who attended the meeting as necessary.

The Budget Management Committee is primarily responsible for (i) organizing and coordinating our Bank-wide planning and budgeting work, (ii) considering the policies, regulations and standards related to budget management; (iii) considering the overall budget draft, budgets for various lines of business and the budget draft prepared by various departments; (iv) reviewing our Bank's annual business, financial and capital budget indicators; (v) listening to the budget implementation reports, and listening to the corresponding business improvement measures and effects thereof; (vi) reviewing and revising the adjustment or revision to the draft budget; and (vii) coordinating and resolving conflicts in the process of budget management.

As of the Latest Practicable Date, the Budget Management Committee consisted of 18 members and 12 alternate members and was chaired by Mr. Fu Qiang.

Consignment Asset Management Products Decision Committee (代銷資產管理產品決策委員會)

The Consignment Asset Management Products Decision Committee is under the direct supervision of the senior management of our Bank's head office. The committee shall make decision on major matters of the agent sale of asset management business, including (i) approval of acceptance of business partner and products, in particular, the committee shall consider white list of business partners, acceptance report of entities not registered in the white list with in-depth study of the credit, operation, asset management, product development, internal control of potential business partners; and (ii) dealing with major risks and the withdrawal of entities and products, in particular, major risks shall include but not limited to the insolvency, significant potential risk, significant default events and major funding issue of business partners, unsatisfactory customer services, influential customer complaints of unsatisfactory handling of complaints or negative media coverage resulting in damaging of our Bank's reputation. The committee shall make decision on the exit of unqualified business partners and products.

As of the Latest Practicable Date, the Consignment Asset Management Products Decision Committee consisted of five members and was chaired by Ms. Chen Dongmei.

Procurement and Tendering Management Committee (採購與招標管理委員會)

The Procurement and Tendering Management Committee is under the leadership of the senior management of the Bank to lead and manage purchasing and tendering activities of the Bank and approve major purchases. The committee is mainly responsible for: (i) considering and approving large-scale purchasing projects or matters; (ii) reviewing purchasing plans, including purchasing methods, potential suppliers, composition of tender evaluation teams, tender evaluation rules, number or scope of tender candidates, composition of the tendering team, the tendering rules, number or scope of tender winners and other matters; (iii) listening to and reviewing analysis reports of the Bank's purchasing and tendering; and (iv) reviewing major issues or disputes arising from the Bank's purchasing and tendering process.

As of the Latest Practicable Date, the Procurement and Tendering Management Committee consisted of five members and was chaired by Mr. Ye Jianguang.

Emergency Response Management Committee (突發事件應對管理委員會)

The Emergency Response Management Committee is primarily responsible for (i) circulating and implementing the plans and policies for emergency response management formulated by the Board; (ii) coordinating the work of emergency management such as emergency handling of urgent cases, financial service support and emergency protection; (iii) considering and approving the emergency handling plans, monitoring the emergency drills and reviewing the drill results reports on a regular basis; (iv) considering and approving the financial service solution in response to emergency; and (v) conducting post assessment on the actual effects and risk condition of financial services and measures for handling emergency.

As of the Latest Practicable Date, the Emergency Response Management Committee consisted of 17 members and was chaired by Mr. Fu Qiang.

Product Innovation Committee (產品創新委員會)

The Product Innovation Committee is committee under the operation management department of the headquarters and is responsible for the organization and decision making on product innovation. Its major duties include the approval of annual product innovation proposals and their modification or contingent arrangement. It is also responsible for discussion and approval of major product innovation projects and shall coordinate all lines of business of the Bank to participate in production innovation and development.

As at the Latest Practicable Date, the officer-in-charge of the Product Innovation Committee was Mr. Chen Wei. The members of the committee included representatives from strategic customer department, corporate banking department, retail banking department, consumption finance and credit card department, private banking department, international business department, digital finance department, information technology department, financial market department, investment banking and wealth management department, SME finance department, comprehensive risk management department, internal control and compliance department, audit department, operation management department and the treasury department.

DEPARTMENTS RELATING TO RISK MANAGEMENT

Comprehensive Risk Management Department (全面風險管理部)

Based on its practical needs and responsibilities, the Comprehensive Risk Management Department has adopted the organizational structure of "one department and three centers (一部三中心)". The three centers are the Comprehensive Risk Management Center, Credit Risk Management Center and Legal Affairs Management Center.

The Comprehensive Risk Management Center is mainly responsible for (i) preparation of mid to long term risk management plans and annual plans and comprehensive risk management policies and the preparation of comprehensive risk management work report; (ii) monitoring the compliance of risk appetite and limits; (iii) organizing the management of market risks (including the interest rate risk and foreign exchange risk of trading books); (iv) conducting stress test and improvement of stress test reports mechanism; (v) participating in the development of risk management procedures and control measures of new products and new business; (vi) management of information technology risk and business sustainability; and (vii) establishing working mechanism for financial stability liaisons.

The Credit Risk Management Center is mainly responsible for (i) participating in the development and supervision of the implementation of credit policy of the Bank and participating in the review of the credit product management policies of the Bank, organizing the post-disbursement inspection and preparation of risk prevention and eviction measures, organizing and implementing the quality risk classification of credit assets of the Bank; (ii) conducting assessment of credit asset quality and management of non-performing assets; (iii) determining regulation to govern the credit rating of branches; (iv) development, improvement and implementation of filing of credit and collateral records; (v) maintenance of credit management information system, corporate credit system, personal credit system and the registration and posting system of pledge of receivables; and (vi) determination of the credit business sub-authorization system.

The Legal Affairs Management Center is mainly responsible for (i) formulating annual plan of our Bank-wide legal affairs management; (ii) addressing and managing all of our Bank's civil and commercial, administrative and other legal disputes for our Bank; (iii) providing legal consultations and necessary supports; (iv) revision and supervision of all standard contracts and review all non-standard contracts; (v) participating in the negotiation of our Bank's major business activities, participating in drafting of major contracts in accordance with the needs of our Bank's business departments; and (vi) participating in the development of new products and business, and contributing relevant legal and compliance opinions.

Internal Control and Compliance Department (內控合規部)

The Internal Control and Compliance Department is responsible for the compliance, internal control, prevention of operation risk and offences and anti-money laundering by coordinating the internal control and compliance management system. The department is responsible for the supervision of internal control of the Bank to make sure that internal control can cover the areas of business decision, execution and management. In addition, the department strengthens the requirements of the compliance management of the Bank and promotes the awareness of compliance, identifies and assesses the operation risk of the Bank and the management of operation risks. The department strengthens the case prevention education of the Bank, supervises the conduct of staff, identifies and monitors money laundry activities. The department is also responsible for directing and managing the internal control and compliance management of the risk management departments of each first-level branch, supervising and implementing various internal control and compliance work in branches.

General Office (辦公室)

The General Office of our Bank is the department that leads our Bank's reputation risk management. For details on reputation risk management, please see "— Reputation Risk Management".

Credit Approval Department (授信審批部)

The Credit Approval Department is responsible for coordinating the works between departments and has three centers under its supervision:

- Credit Review Center (授信審核中心): responsible for the review of credit business within the scope of authority of the headquarters;
- Credit Utilization Approval Center (用信審批中心): approve the utilization of credit that has been approved; and

- Integrated Management Center (綜合管理中心): responsible for the management of risk manager and risk monitoring of large loans.

The risk managers are managed by the Credit Approval Department, to which risk managers report directly.

Audit Department (審計部)

The responsibilities of the Audit Department is auditing and inspection. The functions of the Audit Department are divided into inspection, supervision and auditing; and identification and accountability of non-performing loans.

The department conducts internal audit activities independently and objectively and is mainly responsible for the audit, assessment and supervision of improvement of the operation, risk management, internal control and compliance and corporate governance of the Bank.

The Audit Department formulates its audit work plan at the beginning of each year, and allocates the annual audit works in accordance with the relevant requirements of the CBIRC, Guangdong Province Rural Credit Cooperatives Association* (廣東省農村信用社聯合社) and our Bank's standards and objectives.

Assets and Liabilities Management Department (資產負債管理部)

The Assets and Liabilities Management Department is responsible for the management of assets and liabilities, investment management, interest rate pricing management, pricing management of intermediary businesses, pricing management of internal fund transfer, liquidity risk management, bank account interest rate risk management, capital management, rating management and position management, supervision and support to the operation of subsidiaries, guidance and supervision of non-consolidated investment institutions.

CREDIT RISK MANAGEMENT

Credit risk refers to the risk of loss due to a debtor or counterparty default or downgrade of credit rating, or a decline in the ability to perform its contractual obligations of repayment. The credit risks our Bank faces are mainly related to corporate loan business, personal loan business, and SMEs loan business. Our Bank has established and continually improved relevant systems for credit risk management to identify, measure, monitor, mitigate and control the risks arising from our Bank's credit business. Our Bank has implemented standardized credit review and extensive management policies and procedures.

Credit Policy

Our Bank is committed to striking a balance between achieving stable loan growth and maintaining a prudent risk management culture. Our Bank has developed detailed credit risk management guidelines based on provincial, national and international economic conditions, as well as government policy and regulatory requirements. Our Bank adjusts our Bank's guidelines in a timely manner to respond to changes in government policies, the economic environment and our Bank's own risk tolerance.

Our Bank adheres to five principles when conducting credit extension businesses.

(i) the principle of actively supporting industries with superior potentials while limiting those with inferior potentials: Our Bank supports high-quality customers with good industry prospect, strong shareholder strength, sustainable operation ability and low risk and projects that meet the requirements of industrial technology upgrade while restricting customers and projects that are not up to the standard in environmental protection, low in production capacity, low in product added value and high in risk;

(ii) the principle of strict access: Our Bank carefully examines the borrower's qualification, guarantor's guarantee qualification and customer's asset status in accordance with the industry and customer access requirements;

(iii) the principle of "maintain spending in some areas while cut spending in other areas (有保有壓)": Our Bank continues to strengthen our Bank's support to industries and enterprises such as "modern agriculture, rural areas and farmers", fully mortgaged enterprises, municipal high-quality project enterprises, large-scale key enterprises, fast growing enterprises, listed enterprises and enterprises that could go public in the future, green environmental protection, energy conservation and emission reduction, industries focusing on pollution prevention and control, clean energy, high-end equipment manufacturing, franchise and special operation. While our Bank strictly controls or prohibits credit extension to the "two high and one surplus (兩高一剩)" industries, policy restricted industries, hotel and entertainment industries, industries and enterprises in the process of reducing capacity and inventory and deleveraging, enterprises violating laws and regulations on environment and safety production, enterprises withdrawing from other banks or financial institutions and local financing platforms;

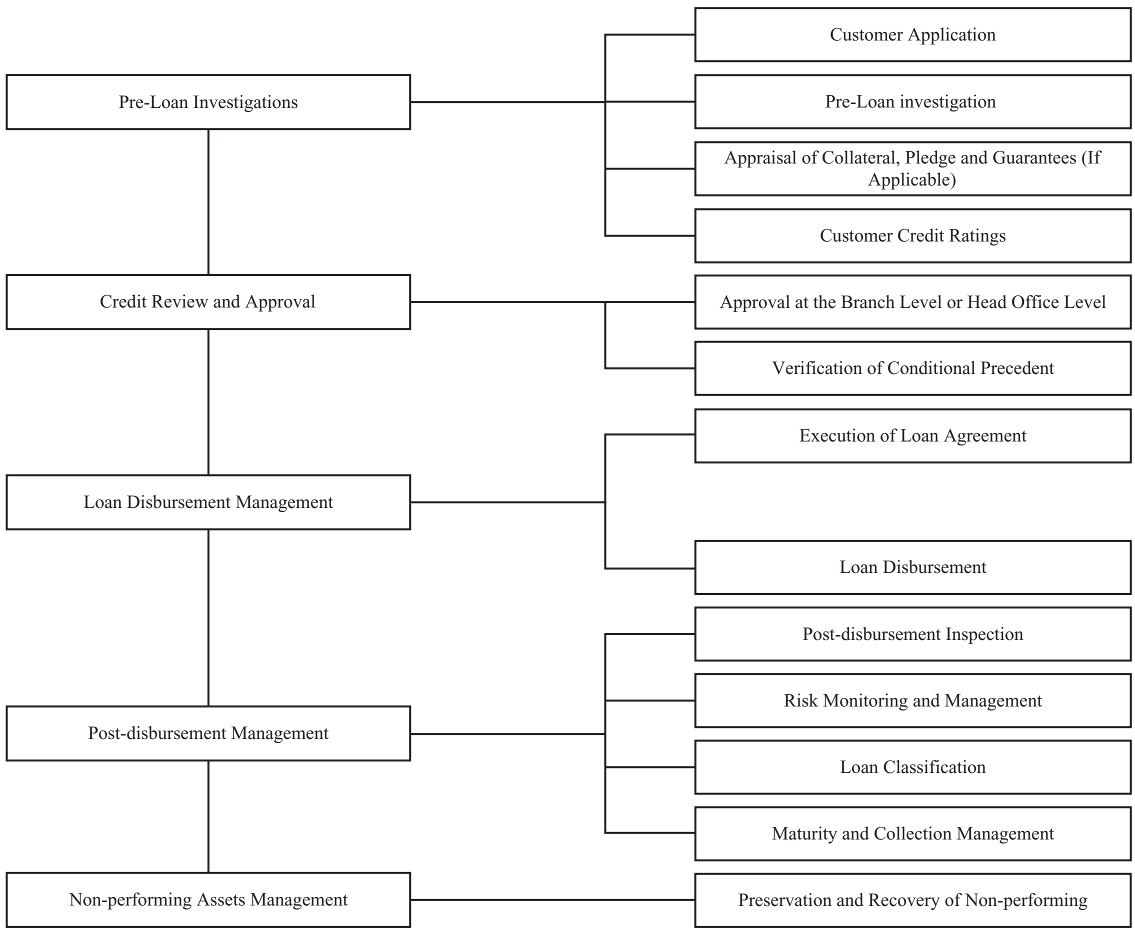
(iv) the principle of risk control: Our Bank focuses on the realizability and value preservation of collaterals, retains high-quality collaterals loans, optimizes and adjusts general collaterals loans, compresses low-quality collaterals loans, and further improves the proportion of collaterals with better risk mitigation ability; and

(v) the principle of authenticity of use: Our Bank strictly checks the authenticity of industry investment, ensures the authenticity of the use of credits extended, and increases the support of credit funds to the real economy.

Based on the business prospect of different industries, our Bank has developed credit guidelines to classify credit origination preference into five categories: "strongly supported" "supported", "prudent", "restricted" and "prohibited". Our Bank prioritizes allocation of our Bank's credit resources to the industries in the "strongly supported" and "supported" categories, such as industries that can effectively mitigate risks associated with economic cycles such as medical and health and industries with strategic importance such as new material and high-end equipment manufacturing. Our Bank provides calculated credit support to industries in the "prudent" category, such as industries relating to textile, lighting, and paper making. The "restricted" category and "prohibited" category include the industries expressly restricted or prohibited by PRC Government and clients who our Bank believes do not meet the requirements of credit extension. For the "restricted" category and "prohibited" category, Our Bank refrains from granting new credit and has gradually reduced the amount of outstanding credit extended to the relevant clients. Examples of industries in the "restricted" and "prohibited" categories include heavy industry such as steel, cement, and mining.

Our Bank currently has 17 industries in the "strongly supported" category, 27 industries in the "supported" category, 16 industries in the "prudent" category, 10 industries in the "restricted" category, and 9 industries in the "prohibited" category.

Credit Risk Management of Corporate Loans



Pre-Loan Investigation

Customer application and pre-loan investigation. After our Bank's corporate customer submits a credit application, our Bank will start the pre-loan investigation process. Our Bank adopts a "two-person investigation" mechanism which requires two account managers to conduct pre-loan investigation as a team and offer their independent assessment.

The pre-loan investigation mainly uses (i) on-site investigation which includes visiting the applicant's business premises and inspecting its manufacturing equipment, inventories, value-added tax invoices and utility bills for the purpose of verifying their actual business operations, and (ii) indirect investigation, which combines qualitative and quantitative measurement methods to provide basis for the loan business approval in order to obtain comprehensive and objective customers information. Our Bank usually requires the applicant to provide the necessary supporting documents, such as its organizational documents, business licenses/certificates and recent financial statements. If the loan is secured by collaterals, our Bank also requires the applicant to provide, among other things, proof of ownership, information about the guarantor, and the relevant supporting documents. Our Bank's account managers will review the documents in accordance with our Bank's established standards and verify their authenticity and validity.

When conducting pre-loan investigation, our Bank usually considers the following factors: (i) the inherent risks of the industry that the borrower operates in; (ii) the comparative competitiveness and growth rate of the borrower in its respective industry; (iii) the financial condition of the borrower which is assessed by analyzing its cash flows, revenue, assets and liability; (iv) intended use of the loan proceeds, (v) the credit history of the borrower; and (vi) if the loan is secured, the credit worthiness of the guarantor and the value of the collateral pledged.

Appraisal of Collateral, Pledge and Guarantees. If the loan is secured with collaterals, our Bank will conduct assessment on the collateral before approving a secured loan application. Our Bank's internal policies define acceptable and unacceptable types of collateral, as well as assessment procedures and criteria for determining the loan-to-value ratio, which is a measure that compares the size of the loan to the value of the collateral.

Our Bank requires the customers to provide detailed information and documentation of the collateral to be pledged, which, depending on the type of asset, may include (i) title certificates and other relevant documents indicating control over the underlying assets; (ii) for corporate mortgagor, its business certificate, company charter and relevant shareholder resolutions or resolutions of the Board of Directors in respect of pledge of collateral; and (iii) for personal mortgagor, his or her identification documents.

When necessary, our Bank hires a qualified third-party appraiser to issue a collateral value report. Our Bank further reviews the assessment report issued by the third-party appraiser to ensure that it reflects the true value of the collateral.

To determine the maximum loan-to-value ratio for different types of mortgages, our Bank takes various factors into account, including the credit risk of the loan, the valuation of the collateral, the devaluation risk of the collateral, the applicability of the collateral, and historical fluctuations in the collateral price. The maximum loan-to-value ratios of the main collateral and pledge securing our Bank's loans are as follows:

Type of collateral and pledge	Maximum Loan-to-Value Ratio
Collateral	
Real estate – residential	70%
Real estate – commercial	70%
Machineries	30%
Means of transportation	40%
Mining right	40%
Forest rights	40%
Land use rights of collective land for operation	40%
Pledge	
Wealth Management Products	95%
Certificates of deposit	95%
Treasury bonds (certificate bonds and saving bonds)	95%
Bank acceptance bills	90%

Type of collateral and pledge	Maximum Loan-to-Value Ratio
Precious metal	80%
Inventories	30%
Circulating shares of a public company (component of the CSI 300 Index)	60%
Circulating shares of a public company (not component of the CSI 300 Index)	50%
Intellectual properties	20%

The Audit Department organizes the audit and supervision of collateral and file management on a regular basis, and the audit scope mainly includes: (i) whether the collateral accepted conforms to our Bank's standards; (ii) whether the appraisal value of the collateral is fair and whether it is revalued regularly as required; (iii) whether the contents of the collateral are consistent with those of the registration authority; (iv) whether the warrant is kept in strict accordance with the relevant provisions of the file management measures; (v) whether the collateral information entered into the system is accurate; (vi) whether collateral preservation and realization follow the principle of minimizing credit loss of our Bank; (vii) whether the elements of mortgage (pledge) contract are complete and whether the filling is standard; and (viii) whether the file management meets the requirements.

Our Bank's head office and branches will timely put forward rectification requirements for the non-compliance operation, overestimation of collateral value, loss of warrants, loss of collateral or inaccurate collateral information found in the inspection process, and order relevant personnel to make corrections within a time limit.

Customer Credit Ratings. Our Bank follows the operational principle of rating the customer first, then granting the loan. In our Bank's loan business, the receipt of all necessary documents to the satisfaction of and completion of the pre-loan investigation is the prerequisite for loan approval to our Bank's corporate customers. Customers with unsatisfactory rating or no rating cannot initiate credit application with our Bank. Our Bank utilizes different sets of customer and guarantor rating standards customized for different industries, so as to control risks and optimize the loan disbursement structure. Our Bank rates our Bank's corporate customers in ten categories, namely AAA, AA, A, BBB, BB, B, CCC, CC, C, and DDD.

Our Bank's credit rating system utilizes 12 different models. The system adopts the method of quantitative and qualitative analysis to accurately and objectively evaluate the risk of default for each customer and guarantor and determine the customer and guarantor's credit rating in a systematic and competent manner.

Credit Review and Approval

The Bank assesses the credit ability of each branch according to the credit scale, credit quality, management level, quality of employees, and grants different level approval authority accordingly. To optimize the balance between development and risk management, our Bank adjusts credit review and approval authority from time to time.

For a corporate loan application, if it is within the authority of the first-level branch, the risk manager in that branch will issue a review report and submit it to the credit approval group of that first-level branch for deliberation.

The final determination on loan approval is made by the head of that first-level branch after the submission by the secretary of the credit approval group of that first-level branch.

If the loan is beyond the authority of the first-level branch, the risk manager will issue a risk analysis report and submit it to one of the business departments at the head office based on the nature of the loan application. The corresponding department will issue an opinion, and then submit it to the Credit Approval Department at the head office for review. After the Credit Approval Department issues its review opinion, such opinion will be submitted to the Loans Review Committee under the senior management for review. The secretary of the Loans Review Committee will summarize the opinions of each member and then issue the committee's final decision to the first-level branch in the form of "credit decision table".

Loan Disbursement Management

Our Bank strictly follows the two core principles for loan disbursement: (i) integrity of the system, which is to conduct loan disbursement according to our Bank's internal regulations and standardized process and (ii) prevention of risk, which is to ensure the safety and risk management of the loan.

Loan application shall be examined by the customer manager of the first-tier sub-branch who shall initiate the credit check before the application is recommended by the president of the first-tier sub-branch for consideration by the Credit Utilization Approval Center. Loan application shall be approved by the competent officer of the Credit Utilization Approval Center if such application is within his/her authority. If the loan application is beyond the authority of the Credit Utilization Approval Center, the approval of the application shall be determined by the vice president or president of the Bank, as appropriate, whose decision shall be final.

Post-Disbursement Management

Post-disbursement management refers to the credit management from the time of loan disbursement to the time of principal and interest recovery or the end of credit business. The purpose of post-loan management is to understand the changes affecting the borrower's ability to repay and, if necessary, take timely remedial measures to ensure the safe recovery of loan.

Our Bank's post-disbursement management has a clear goal of understanding the changes affecting the borrower's ability to repay the loan and taking timely and proper remedial measures to ensure the safe recovery of the loans.

Our Bank follows six fundamental principles in our Bank's post-disbursement management: (i) clear responsibility and cooperation, which means that the relevant departments at the head office and first-level branches are given clear responsibilities and there should always be a close coordination and communication when implementing the post-disbursement management between the head office and first-level branches; (ii) clear categorization, which refers to the implementation of differentiated, focused, and targeted post-disbursement management depending on factors such as customer type, business type, risk degree and repayment ability; (iii) meticulous inspection, which means that the post-disbursement inspectors should always conduct in-depth and comprehensive inspections of the borrower's and guarantor's business operations and mortgage (pledge) conditions through a combination of on-site inspection and off-site inspection, and routine inspection and special inspection for the sake of making a reasonable and accurate evaluation of the potential loan risk; (iv) truthful disclosure, which refers to the timely and truthful disclosure of the existing or potential risks of our Bank's loan extension found by the post-disbursement inspectors during the inspection process without such risks being concealed, trivialized or exaggerated; (v) timely early warning, which means the establishment and improvement of early risk warning mechanism through the timely detection and processing of early risk signals based on the constant monitoring of the borrower's and guarantor's business operations and financial conditions; and (vi) prompt disposal which means that when the risk cannot be mitigated, the plan of disposing the relevant non-performing loans should be formulated promptly to minimize the losses.

Our Bank's post-loan management primarily consists of post-disbursement inspections, risk monitoring and management, loan classification and maturity and collection management.

Post-Disbursement Inspection

Post-disbursement inspection includes three aspects: (i) loan issuance inspection, (ii) routine inspection which includes both on-site and off-site inspection, and (iii) special inspection.

The inspection of loan issuance refers to the first inspection after the issuance of corporate loan. Within 15 days after the loan is granted, the inspector from the risk management department of the first-level branch where the loan is applied and granted will check the use of loan to ascertain (i) whether the funds is used for illegal criminal purposes related to money laundering; (ii) whether the fund is used in a prohibited way; and (iii) whether the information disclosed in the investigation report submitted by the account manager is sufficient and accurate.

Routine inspection refers to the routine inspection on applicant's production and operation, solvency and loan guarantee. Routine inspection is mainly divided into on-site and off-site inspection.

Routine inspection primarily covers the following subjects: (i) basic information of the borrower: this includes borrower's profile, annual credit financing situation, management change; (ii) operation of the business: this includes production and operation of the business, changes of the operation scale of the business. Operation information of the business includes documents such as water and electricity bills, goods inventory record, and pay slips; (iii) financial analysis and risk information: these include financing information of the business in our Bank and other banks; (iv) account supervision: this includes, without limitation, analysis and inspection of major capital flows, such as returning capital accounts, project income accounts, and repayment accounts. Cross-validation is carried out in combination with report data and actual business operation; (v) financing projects: for uncompleted projects, it is necessary to know the progress, payment and quality of the project, the difference between the actual capital input and the budget, as well as the availability of follow-up capital; for completed projects, it is necessary to know the sales, operation, management and capital withdrawal of the project; (vi) purpose of the loan: whether the use of credit funds is legal and compliant, and whether it is consistent with the loan application; (vii) credit records: this includes the borrower's credit record, repayment record, external guarantee and loan risk classification from other banks; (viii) cooperation between the customer and our Bank: including the day-to-day communication, the relevant loan agreement and cooperation attitude between the customer and our Bank; (ix) inspection of the guarantor: focusing on guarantor's operation, financial status, credit records, capital flow and ability to repay; (x) inspection of the collaterals; (xi) inspection of the pledges and entrusted items; and (xii) inspection of environmental and social risks inspection.

Special inspection refers to the targeted inspection carried out for certain special purposes. It mainly includes (i) carrying out various risk screening according to the requirements of the head office or governmental regulatory bodies; (ii) investigating specific risk signals found through off-site inspection; (iii) inspection of certain industries or certain types of loans as results of political, economic and policy adjustments; (iv) upon discovery of external or media information which indicates the existence of major problems, a special inspection is warranted; and (v) other matters requiring special inspection.

Risk Monitoring and Management

Risk monitoring and management refers to the active and dynamic management process of using a variety of information channels and analysis methods to identify, analyze and measure the early warning signals of credit customers, and take appropriate measures in time to resolve risks. Our Bank conducts risk monitoring and management in accordance with the following six principles:

(i) the principle of comprehensiveness: risk monitoring and management work involves many levels and positions of branches and head office, and all of our Bank's members have early warning responsibilities;

(ii) the principle of hierarchical management: our Bank's head office and first-level branches have set up corresponding decision-making and disposal levels for early-warning signals of different levels, so that they have clear responsibilities, division of labor and coordination;

(iii) the principle of timeliness: responsible personnel need to discover early warning signals and report such signals in a timely fashion;

(iv) the principle of quick response: for the early warning signals to be effective, response actions should always be taken. In case of emergency, relevant personnel is required to act promptly in accordance with the specified procedures based on the principle of maximizing the preservation of value of credit assets;

(v) the principle of information exchange: after the risk warning signal is verified, credit business management personnel should be notified according to relevant regulations, so as to realize the information sharing between the head office and the first-level branches; and

(vi) the principle of confidentiality: risk warning is an important part of post-loan management and an internal risk prevention measure of our Bank. As a result, relevant information can only be reported level by level according to the system and cannot be disclosed to the public.

Our Bank's head office and branches have established and continue to improve the risk early warning mechanism. The Bank has adopted a credit risk alert system to identify the risk of customers by using big data technology to analyze internal and external data. The credit risk alert system is established on the basis of a set of indices and to raise risk alert on customer according to any of the indices. Risk signals can be identified from external data analysis or from off-line inspection by our credit inspection officers. The risk early warning system can be operated on line. Risk alert signal is initially inspected by the responsible officer who shall prepare a contingency plan accordingly for confirmation by the relevant approval officer for implementation. Risk alert can only be withdrawn upon completion of the contingency plan.

Our Bank actively monitors, identifies and controls any potential or actual risks that may damage the quality of our Bank's assets. The risk management-related departments regularly conduct comprehensive analysis of our Bank's risk information and regularly evaluate our Bank's risk exposure. Our Bank analyzes all factors that may affect the borrower's ability to repay, including financial status, revenue stream and use, guarantees, and non-financial factors such as industry-related risk, operation risk, management risk, social risk, repayment history, and willingness to fulfill the obligation of repayment.

Loan Classification

In determining the classification of our Bank's loan portfolio, our Bank applied a series of criteria that were derived from the CBIRC Guidelines. Our Bank classifies our Bank's loans into five categories, namely, normal, special mention, substandard, doubtful and loss in accordance with the level of overall risk of the loans. Loans in substandard, doubtful and loss classifications are considered non-performing loans. Through the continuous monitoring and analysis of the borrower's financial risk, non-financial risk, cash flow, guarantee and other factors, our Bank's classification mechanism can accurately reflect the borrower's repayment ability, willingness to pay back loan, and fluctuation of risk in each specific period. Our Bank sets up a three-level classification system to accurately identify the risk level of loan assets, namely, (i) the Loans Review Committee at our Bank's head office is the ultimate determining body of the loan classification; (ii) the Comprehensive Risk Management Department at our Bank's head office is responsible for the daily management of loan classification in accordance with the principle of separation between risk management and loan extension; and (iii) the classification and identification group at each branch is consisted of the vice president in charge of loan business of branch, the head of marketing department and risk management department, and other relevant personnel.

Our Bank's loan classification system adopts the method of hierarchical authorization. Each level has its defined authority and if the loan under review for classification is outside such authority, such loan will be submitted to a higher level for review. The Loans Review Committee at our Bank's head office is the ultimate body for loan classification. Review of loans associated with our Bank's ten largest borrowers, first-time loss classification of loans, and loans that have significant dispute regarding their proper classification is reserved exclusively for the Loans Review Committee.

Our Bank closely monitors the quality of loans and may reclassify our Bank's corporate loans based on the results of routine (quarterly) and *ad hoc* inspections. Our Bank will re-exam and re-rate each of our Bank's corporate loan customer who has credit balance with us on a yearly basis. The risk classification will be adjusted according to the specific situation at the time of re-examination which includes principally any material changes in the customer's financial condition and business operation. Specific measures will also be taken according to changes in customer's risk situation and changes in its credit rating during post-disbursement period to prevent and resolve the potential credit risks unforeseen at the time of loan disbursement.

When managing our Bank's collaterals, our Bank has adhered to the following four principles: (i) legitimacy, which means that our Bank's collateral management complies with the relevant national laws and regulations; (ii) effectiveness which means that our Bank's collaterals all have valid registrations and filings and the valuation of our Bank's collaterals are reasonable and easy to dispose and realize; (iii) prudence, which means that our Bank takes full account of all possible risk factors, give priority when taking collaterals with those assets that have high risk mitigation capability, can be easily disposed and realized and have legal and effective registration, prudently accept those collaterals that are non-standard and difficult to monitor and dispose, and prudently assess the value of collateral and reasonably set the loan-to-mortgage rate; and (iv) subordination, which means that collaterals should always be the second source of repayment for credit risk mitigation which is subordinated to the sufficiency and solvency of debtor's first source of repayment and should be able to effectively cover our Bank's credit risk exposure.

Specifically, our Bank continuously monitors the custody, use, value, liquidity and other risks of the collateral, and issue early warning signals in time in case of any of (i) the ownership of the collateral is changed or disputed; (ii) the value of collateral decreases, exceeding the approved loan-to-mortgage rate; (iii) the priority rights of compensation such as construction project funds and land transfer fees set on the collateral have changed; (iv) the collateral is damaged, lost, expropriated or no longer eligible for effective mortgage (pledge); (v) the mortgaged construction in progress is completed or the mortgaged goods form new property; (vi) without consent, the collateral is donated, transferred, leased, transferred or disposed of in any other way; (vii) collateral is repeatedly mortgaged (pledged); (viii) the collateral is frozen, sealed up or seized by the relevant authorities according to law; (ix) the collateral warrant has expired or the registration has become invalid; (x) the insurance of the collateral expires, or is interrupted or cancelled; (xi) the mortgaged land use right has been suspected to be idle or recognized as idle land by the competent department of the land and resources; and (xii) other major risks affecting repayment.

In principle, our Bank evaluates the collateral with relatively stable value such as real estate on a yearly basis. For the collateral with large price fluctuation such as inventory and storage, our Bank conducts revaluation on these collaterals on a semi-annual basis. However, our Bank will conduct immediate reevaluation of collateral when (i) the fair market price of the collateral has declined substantially; (ii) the collateral has been transferred to the risk management department by the business department; (iii) there is a breach of the loan agreement; (iv) the loan classification degrades from normal to bad; and (v) other major risk events that may substantially affect the value of collateral.

Maturity and Collection Management

In general, our Bank requires our Bank's account managers to notify the borrowers of upcoming repayment obligation by written notice within thirty days before the due dates. Our Bank requires our account manager to notify the borrowers five days before the date of interest settlement to make sufficient deposits into their payment accounts if the funds the borrowers held in our Bank are not sufficient to cover the relevant debt obligations.

If the loans are overdue, our Bank generally requires our Bank's account managers to send written reminders to the borrower in default and the guarantors. Should there be no response from the borrower, other measures such as taking remedial measures to facilitate the repayment of loans, filing lawsuits, or collecting payment in person may be implemented by our Bank.

Non-performing Assets Management

Non-performing assets refer to the non-performing credit assets and non-credit assets formed in the operation of our Bank or obtained through other means, such as non-performing debt, equity and physical assets. The management of non-performing assets refers to the collection, analysis and processing of information related to non-performing assets, and, through scientific management methods and processes, the implementation of comprehensive management and optimal disposal of non-performing assets in accordance with the inherent characteristics of non-performing assets.

The management of non-performing assets includes daily monitoring and inspection, collection and disposal of non-performing assets. In particular, our Bank carries out disposal of non-performing assets prudently, and careful selection of disposal method, pricing, and disposal plan, with the goal of resolving the risk arising from the non-performing assets, improving the quality of assets, and promoting the stable operation and sustainable development of our Bank.

Our Bank adheres to the following six principles when conducting management of non-performing assets: (i) the principle of compliance with laws and regulations, which means that the management and disposal of non-performing assets must strictly abide by laws, relevant rules and regulations, and standardized operational procedures of our Bank; (ii) the principle of true disclosure, which means that the management and disposal of non-performing assets must truthfully reveal and reflect the risks associated with the underlying assets. Falsifying or covering up the risks of assets for any reason or in any way is strictly prohibited; (iii) the principle of minimal impairment, which means that after assets become non-performing assets, relevant management and preservation measures should be promptly taken to prevent the further devaluation of non-performing assets, and timely collection and disposal should be carried out to truly and effectively reduce the risk of assets, minimize the loss, and maximize the recovery rate of such non-performing asset; (iv) the principle of compensation , which means that the head office should gradually and systematically improve the level of risk provision, and timely dispose and digest the disposal losses; (v) the principle of avoidance of conflict of interests, which means that if the staff who is in charge of managing the non-performing assets has a direct or indirect relationship with the debtor, guarantor, asset transferee, or entrusted intermediary of a particular non-performing asset or, is found to have a direct responsibility for the formation of such non-performing asset, or may have an impaired capacity to effectively perform his or her duty due to any circumstances, he or she should always avoid participating in the management of such non-performing asset; (vi) the principle of cost effectiveness and risk control, which means that in selecting and applying asset disposal methods, we should always conduct cost-benefit analysis and risk control management, make reasonable analysis and comprehensive comparison, and select the best and feasible disposal methods to reduce losses arising from the non-performing assets.

Specifically, our Bank recovers non-performing assets through a variety of means, including

(i) standardized collection procedures, which mainly includes direct collection, clearing by agreement, account deduction. Our Bank monitors the change of repayment ability of the debt related parties, timely recovers the debt directly from the debt related parties through on-site collection, telephone collection or sending collection notice, and recover the capital and interest of the assets as much as possible;

(ii) legal proceedings and arbitration, which mainly refers to the realization of our Bank's rights as creditor through legal means and judicial procedures. Legal settlement and disposal include filing lawsuit or arbitration, property preservation, application of payment order, application for compulsory execution, realization of security right, disposal the collaterals and seeking recourse from the loan guarantor;

(iii) contracting third-party professionals to collect on behalf of our Bank, which refers to the non-performing assets that cannot be recovered through the internal collection procedure or legal means. Our Bank will sign a collection agreement with a third party which will act as our Bank's agent to collect the non-performing assets;

(iv) reduce or waive of interests, which refers to the recovering our Bank's rights as the creditor by means of interest reduction or waiver for qualified borrowers;

(v) bankruptcy liquidation, which refers to recovering all or part of our Bank's right as the creditor by declaring our Bank's right as creditor to the bankruptcy receiver and liquidating all the property of the debtor;

(vi) restructuring, which refers to the reorganization of debtor's assets through methods such as asset transfer, merger, acquisition and spin-off so as to realize the transformation of non-performing assets from high-risk to low-risk or normal assets;

(vii) collecting debt in kind, which refers to when a debtor or a third party uses real assets or property rights that it owns or has the right to dispose of to offset all or part of the debt owed by the debtor to our Bank when such debtor unable to repay the debt with cash and cash equivalents;

(viii) transferring non-performing assets to policy banks, commercial banks, financial companies, trust and investment companies and other financial institutions and public investors;

(ix) doubtful debt write-off, which refers to write-off of non-performing assets that cannot be recovered after necessary measures have been taken according to the prescribed procedures and conditions;

(x) package disposal, for some of the non-performing assets that are difficult to dispose of or have high disposal cost, our Bank bundles and packages them to be processed so as to speed up the disposal progress and improve the overall efficiency and recovery rate of asset disposal;

(xi) internal bidding, our Bank holds open bidding of the non-performing assets to our Bank's employees, and the winning bidder performs the contract to recover the non-performing assets; and

(xii) converting debt into equity, which means that our Bank converts existing debt to equity or invest in shares in kind in accordance with relevant laws and regulations, and with the consent of the regulatory authority.

Portfolio Management

Credit Risk Management for Loans to Real Estate Industries

Our Bank extends credits to real estate developers in accordance with the national policies and guidelines for real estate development and financing, and our Bank's internal policies. Our Bank only extends credits to borrowers with certain qualifications. These qualifications include: (i) the borrower must be a real estate development enterprise approved and registered by the relevant regulatory bodies and qualified for real estate operation and development; (ii) the proportion of self-owned funds in the total investment of project should conform to the latest national regulations; (iii) the equity structure of the borrower is clear, the internal management is standardized, the financial situation is satisfactory, and the information disclosure is transparent; (iv) when the project exceeds the original budget, the shareholders of the borrower should have the ability to re inject capital to support continuance of the project; (v) there is no bad record of borrower or major shareholders or actual controllers of the borrower with other banks or enterprises; (vi) the department qualification of the borrower to develop real estate should be sufficient; and (vii) the borrower is willing to accept and comply with all requirements under our Bank's standardized credit management.

Credit Concentration Management

Our Bank closely monitors the balances of loans granted to single customer and group borrower to effectively control the concentration of credit risk generated by loan business expansion and ensure compliance with applicable laws and regulations. The Credit Approval Department at the head office is primarily in charge of monitoring the credit concentration risk of our Bank.

Our Bank requires that the total loan balance provided to a single customer should not exceed 10% of the net capital of its institution (our Bank or our affiliated banking and financial institution). The total balance of credit granted to a single group customer should not exceed 15% of the net capital of its institution.

Credit Risk Management of Personal Loans

Our Bank's credit risk management procedures for personal loans include pre-loan investigations, credit review and approval loan disbursement management and post-loan management.

Customer Application and Pre-loan Investigation

Upon receipt of a personal loan application, due diligence on the applicant will be conducted. A variety of information will be assessed and considered to decide the applicant's credit worthiness such as basic personal information, income, intended use of proceeds, methods through which the loan will be repaid, and collateral information, (if any). An on-site interview with the account manager is also mandatory so as to avoid fraudulent applications.

Based on the combined information received from the due diligence works, our Bank's account manager will produce a due diligence report to be submitted for approval.

Credit Review and Approval

For personal loans, if the application is within the authority of the first-level branch, then such application is approved by the authorized person of the first-level branch; if the application is determined to be outside the authority of the first-level branch, the risk manager needs to issue a risk analysis report and submits it to the relevant business department of the head office for approval; if the application is not within the authority of the relevant business department of the head office, then such report will be sent to Credit Approval Department at the head office for review. After the Credit Approval Department issues its opinion, such opinion will be submitted to the Loans Review Committee under the senior management for deliberation. The secretary of the Loans Review Committee will summarize the opinions of the members of the senior management and issue the summary to the first-level branch in the form of "credit decision table".

Loan Disbursement

The disbursement procedure for personal loans is similar to that of the corporate loan disbursement. After signing all the necessary agreements including the main loan agreement and the satisfaction of the conditions precedent specified in the agreement the fund will be disbursed to individuals.

Post-disbursement Management

Similar to that of corporate loans, routine inspections and special inspections after the disbursement of the personal loans are conducted. Relevant information of the applicant is constantly evaluated. If the personal loan becomes overdue, our Bank will take a wide range of actions to recover on the defaulted loans including written notices, lawsuit, and repossession of collaterals.

CREDIT RISK MANAGEMENT FOR TREASURY BUSINESS

Risks involved in our Bank's treasury market business mainly include risk in interbank transactions, debt security investment, rights to earnings on credit assets and fund investments.

Credit Risk Management for Interbank Business

The Proprietary Trading and Investment Decision Committee (資金交易與投資決策委員會) and its Debt and Interbank group (債券與同業授信小組) form the main body that preside over the credit risk management for treasury business. They are responsible for evaluating and analyzing the credit risk status of interbank financial institutions and considering and determining the credit line of interbank financial institutions. The Financial Market Department, Investment Banking and Financial Management Department and International Business Department shall collect information of the relevant institutions and prepare pre-investment analysis report for consideration by the risk manager of the Credit Approval Department who will provide opinion on risk management to the Credit Approval Department for consideration before submitting to the Debt and Inter-bank Credit Approval Team for consideration.

Our Bank collects and analyzes the financial data and credit information to evaluate the size and quality of assets profitability and credit strength of financial institutions so as to determine the reasonable credit limit for each of the customer. The credit limit must be obtained before any treasury business can be carried out (except debts business) . For rediscounted bills, our Bank takes priority in utilizing the credit limit granted by the acceptance bank. If the credit limit granted by the acceptance bank is insufficient, our Bank will utilize the credit limit granted by the bill discounting bank. No transaction may be carried out if the particular interbank financial institution has exceeded its credit limit assigned by our Bank.

Credit Risk Management for Debt Securities investment

Our Bank exerts prudence in assessing the credit risks arising from our Bank's debt securities investment. Our Bank invests in debt securities and credit securities issued by the PRC central and local government and policy banks. The interest rate securities include national bonds, policy financial bonds and central bank bills. Credit securities refer to securities issued by entities other than the central government, local government, PBoC and policy banks.

Our Bank has established and continuously improved a debt securities investment system. Our Bank's debt securities investment is based on the following six principles: (i) legal and compliant principle: the debt securities investment is in compliance with applicable laws, industry regulations and standards and is truthful and equal; (ii) safety principle: our Bank shall fully understand the general economic conditions in the PRC and all factors that may affect the credit rating and management of debt issuers so as to ensure the safety of the principal of our Bank's investment; (iii) profitability principle: our Bank shall prefer the investment of debt securities providing stable interest income or investment income; (iv) liquidity principle: our Bank prefers the investment of debt securities which are easily liquidated at relatively low cost; (v) diversity principle: our Bank invests in various qualified debt securities to diversify the risk and secure stable income; and (vi) risk indicator matching principle: our Bank must regularly monitor the risk indicators of debt securities against our Bank's liquidity risk and interest risk to prevent the over investment in debt securities. For corporate debt securities, our Bank has strict credit investigation and approval procedures.

Credit Risk Management for Investment in Rights to Earnings on Credit Assets

Our Bank's rights to earnings on credit assets investment is subject to a credit limit. In addition, our Bank conducts strict investigation of all investment products in the follow areas: financial condition and qualification of initial beneficiary and guarantor; the business and geographic coverage of the rights on earnings on credit assets products; duration, credit rating, target yield against the yield of credit products of same credit rating; risk protection level upon deterioration of credit rating; tolerance of deterioration of asset pool of the products; and credit enhancement provision such as shortfall payment or repurchase obligations undertook by the initial beneficiaries or third-party guarantors of such rights to earnings on credit assets when borrower defaults. The initial beneficiary generally has no payment or indemnification obligation against our Bank nor does our Bank have any other recourse against the initial beneficiary in case of default of the borrower, except in limited circumstances where such obligation has been expressly provided in the relevant transaction document.

Our Bank continuously monitors the credit risk of the products. The Business Department continuously monitor the products by (i) regularly collecting information on business analysis and payment of interest and principal; and (ii) reviewing operation review and payment of interest and principal of the products and take follow-up actions in the following manners. Our Bank continues to hold the investment of rights on earnings on credit assets if so suggested by the study. The Financial Market Department and Investment Banking and Wealth Management Department may sell the rights on earnings on credit assets in financial market provided that no investment loss will be incurred if so suggested by the study. If the conclusion of the study suggests not to hold such investment and the rights on earnings on credit assets cannot be sold in the market with incurring investment loss, the relevant department shall propose to the Proprietary Trading and Investment Decision Committee for decision on a final disposal plan.

Credit Risk Management of Fund Investment

Our Bank will determine the strategy and planning and evaluate the qualification of the fund manager before investment in fund investments. The evaluation includes but not limited to: experience of the investment team, operation, the position of the relevant industry and years of establishment. If approved, our Bank will apply for opening fund account with the fund manager. Our Bank will select the appropriate fund management team in accordance with the investment strategy and operation needs and determine the terms of repurchase and redemption. Our Bank will also manage the fund allocation and perform accounting and audit. Existing fund investments are regularly reviewed in respect of investment return.

Financial Market Department and the Investment Banking and Wealth Management Department are the front line departments responsible for the investment in funds and are responsible for (i) dealing with the acceptance and exit of fund management companies; (ii) determining the strategy and planning of investment in fund investments; selecting of fund products and determining the size of investment; (iii) subscription of fund, and monitoring the investment return regularly; (iv) conducting review of the risk and income of the portfolio of fund investments; (v) dealing with the redemption of fund investments and conducting audit of the sharing of profit during the period of investment; and (vi) monitoring the fund movement of subscription and redemption. The head office's Comprehensive Risk Management Department, as the middle office department of the fund investments, is responsible for (i) monitor the compliance of risk limit; (ii) to consider the application for inclusion and exclusion of fund managers to the black list and white list of fund managers; and (iii) to conduct legal review of the contracts in relation to public equity investment.

Our Bank conducts quarterly review of the fund managers and our Bank's investment in funds and prepares reports accordingly. The report includes, *inter alia*, the following information: the operation and risk of the fund management companies, the size, income and risk profile of existing investment. Our Bank will maintain the cooperation with the fund management companies if the report suggest so. The Financial Market Department and the Investment Banking and Wealth Management Department will immediately prepare an exit report for the termination of cooperation with the fund management companies for approval by the Proprietary Trading and Investment Decision Committee if the report suggests to exit according to the study. Our Bank shall arrange the redemption of the fund products if approved. The fund account shall be closed after termination of the business with the fund management companies.

MARKET RISK MANAGEMENT

Market risk is the risk of loss in on- and off-balance sheet business arising from adverse movements in market prices. The market risks we are exposed to are primarily interest rate risk and exchange rate risk. Interest rate risk is the risk of loss arising from adverse changes in statutory or market interest rate. Exchange rate risk is the risk of loss arising from currency mismatch between the underlying assets and liabilities.

To effectively address the potential risks, our Bank has established a comprehensive and reliable market risk management system suitable for our Bank's business nature, scale and complexity. Our Bank's market risk management organizational structure consists of the Board of Directors and its Comprehensive Risk Management Committee, the senior management, the management department including, among other things, the Comprehensive Risk Management Department and the Asset and Liability Management Department, and business departments.

Our Bank's Board of Directors bears the ultimate responsibility for market risk management and ensures that we effectively identify, measure, monitor and control the market risks of various businesses. The responsibility of our Bank's senior management in market risk management include (i) timely measuring and adjusting the market risk level that our Bank can bear and reporting it to the Board of Directors for deliberation; (ii) formulating, regularly reviewing and supervising the implementation of market risk management policies, overall procedures and specific operating procedures, carrying out market risk limit management, and timely understanding the market risk level and management status; (iii) formulating the development strategy and asset liability structure adjustment strategy for all of our Bank's relevant businesses, and organizing the implementation of various business development and asset liability structure adjustment strategies; (iv) ensuring that our Bank has sufficient human and material resources and appropriate organizational structure, management information system and technical level to effectively identify, measure, monitor and control all kinds of market risks undertaken by all businesses; (v) regularly report to the Board of Directors on the market risk level, management status, and major changes of market risk; and (vi) regularly organizing and carrying out pressure test, reviewing the pressure test scheme design and test results, and improving the pressure test system. The Comprehensive Risk Management Department is responsible for overall planning of the Bank's market risk management. The Asset and Liability Management Department is responsible for managing bank accounts interest rate risk, proposing tools and methods for identifying, measuring and monitoring interest rate risks, and assisting the Comprehensive Risk Management Department in reviewing the operation and risk management procedures of new products and new businesses in our Bank's interest rate risk management. Business departments are primarily responsible for carrying out operations in accordance with the established market risk management policies and procedures.

LIQUIDITY RISK MANAGEMENT

Liquidity risk refers the risk of failure to acquire sufficient funds in time or at a reasonable cost within a reasonable time to pay debt that reaches its maturity, fulfil other payment obligations and meet other funding needs arising from the business operations. Factors affecting our Bank's liquidity include changes in the maturity profiles of our Bank's assets and liabilities and the policies of PBoC, including changes in statutory deposit reserve ratio. The objectives of our Bank are to dynamically manage the liquidity with the principle of prudence, realize a balanced development of efficiency and liquidity, and to control the liquidity risk arising from maturity mismatch of assets and liabilities on the premise of ensuring liquidity safety and compliance with various liquidity regulatory indicators.

Strictly following the relevant PRC regulations such as the CBIRC's policies, our Bank deals with liquidity risks by:

- establishing an effective governance structure for liquidity risk management where our Bank's Board of Directors bears the ultimate responsibility for our Bank's liquidity risk management, our Bank's senior management formulates and evaluates the liquidity management strategies and policies, our Bank's Financial Market Department (金融市場部) and Assets and Liabilities Management Department (資產負債管理部) implement and supervise the actual operation of liquidity risk management, and other departments to corroborate and facilitate with the main liquidity risk management apparatus;

- clearly formulating policies, strategies and procedures for liquidity risk management, including the following nine aspects: (i) cash flow management, (ii) liquidity risk identification, measurement and monitoring, (iii) limits on liquidity risk exposure, (iv) daytime liquidity risk management, (v) pressure test, (vi) emergency plan, (vii) liability and financing management, (viii) high quality liquidity asset reserve management; and (ix) continuously monitoring and analyzing the potential factors affecting liquidity risk and the impact of other types of risk on liquidity risk;

- establishing an effective liquidity risk identification, measurement, monitoring and control system; and

- building a complete liquidity risk management technology and information system to accurately, timely and comprehensively measure, monitor and report potential liquidity risks.

OPERATION RISK MANAGEMENT

Operation risk refers to risks that may be incurred as a result of inadequate or failed internal procedures, personnel or information technology systems, and external events. The operational risks of our Bank include legal risks but exclude strategic risks and reputation risks. The basic objective of our Bank's operational risk management is to establish and maintain a comprehensive operational risk management system to reduce the occurrence of operational risk events and control the operational risk financial losses or non-financial impacts within acceptable limits. Also, our Bank will ensure our business operations are in compliance with the law to provide a healthy internal operating environment for business development.

Our Bank's organizational structure for operation risk consists of our Bank's Board of Directors, senior management and relevant functional departments of the head office and first-level branches. Our Bank's Board of Directors has the ultimate responsibility for the supervision of effectiveness of our Bank's operation risk management.

LEGAL RISK MANAGEMENT

Legal risk refers to the risk of loss of economic benefits or other damages due to violation or dissatisfaction of laws and regulations of our operation, or failure in our operation or disputes caused by external legal matters.

The objectives of our Bank's legal risk management are to focus on system and process construction, to form a long-term mechanism for legal risk management, and to gradually establish a comprehensive, standardized and dynamic legal risk management system. Our Bank aims to prevent and control legal risks in the entire process of business management. All departments and employees shall work together to bear the responsibility for the prevention and control of legal risks and to build up an effective control mechanism for legal risk management.

Our Bank follows the following five principles when conducting legal risk management, they are:

(i) the principle of prudent management: our Bank's legal risk management must be based on the premise of respecting the law and maintaining good faith, and the strategies and methods of legal risk management must not violate the obligatory rules and prohibitive rules of the law;

(ii) the principle of guidance by strategic objectives: our Bank's legal risk management should be closely combined with business development to promote the steady development of business and the realization of strategic objectives;

(iii) the principle of overall risk management system: the construction of legal risk management and its system should be carried out under the framework of comprehensive risk management, and should be integrated with other risk managements to improve the overall efficiency and effect of risk management;

(iv) the principle of combination of with operation and management: legal risk occurs in business management activities, therefore its identification, evaluation, control and management cannot be separated from business management activities. Therefore, it is necessary to identify risk, control risk and prevent risk events in business management process; and

(v) the principle of continuous improvement: our Bank's legal risk management should be adjusted and improved according to the changes of internal and external environment to achieve continuous improvement.

The Comprehensive Risk Management Execution Committee of our Bank is responsible for the formulation of legal risk management mechanism and implementation of measures. Other functional departments of the head office and branches are responsible for the execution and management of the legal risk management of their own departments and institutions.

The Comprehensive Risk Management Department is responsible for (i) establishing and improving the legal risk management policy; (ii) organizing and improving the legal risk management system; (iii) studying and proposing legal risk management reports and legal risk assessment reports for major decisions; (iv) organizing and coordinating the daily work of legal risk management; (v) organizing response and handling of legal risk events; (vi) guiding and supervising the legal risk management of all functional departments of the head office and branches; (vii) organizing and carrying out training related to legal risk management, cultivate legal risk management culture and concept;

COMPLIANCE RISK MANAGEMENT

Compliance risk refers to the risk of being subject to legal sanctions penalties, regulatory penalties significant financial loss and reputational loss as a result of failure to comply with laws, regulations, rules and internal rules and procedures. The objectives of our Bank's compliance risk management are to effectively identify, evaluate and proactively prevent, and to take measures to address compliance risks by establishing an effective mechanism of compliance risk management, thereby helping to ensure our Bank's compliance with laws and regulations.

The construction of our Bank's compliance management organizational structure meets the needs of business development strategy and risk management strategy. By clearly defining the compliance responsibilities of our Bank's Board of Directors, the Board of Supervisors and senior management, we ensure that compliance risks of our Bank are effectively managed and controlled.

Our Bank's Board of Directors is ultimately responsible for the compliance of our Bank's business management activities. The Board of Directors is responsible for (i) consider and approve the compliance policy and supervise its implementation; (ii) review and approve the compliance risk report prepared by the senior management for immediately elimination of compliance defect; (iii) authorize the Comprehensive Risk Management Committee, Audit Committee and other committees under the Board of Directors to conduct the daily supervision of compliance risk management. Our Bank's Board of Supervisors supervise the implementation of compliance risk management responsibilities of the Board of Directors and senior management. Our Bank's senior management is responsible for formulating and timely revising our Bank-wide compliance policy, submitting it to the Board of Directors for review and approval before implementation, and transmitting it to all employees; (iv) implementing the compliance policy, ensuring the compliance policy can be observed when the operation violates the compliance requirement, ensuring that appropriate corrective measures are taken in time in case of any violation, and investigating the corresponding responsibility of the person responsible for the violation; (v) appointing the compliance director and ensuring the independence of the compliance director; (vi) defining the responsibilities and organizational structure of the Internal Control and Compliance Department, providing sufficient man power, technology and resources for the performance of its responsibilities, and ensuring the independence of the Internal Control and Compliance Department; and (vii) reporting any major violations by the Internal Control and Compliance Department to the Board of Directors, its subordinate committees and the Board of Supervisors in a timely manner.

Anti-money Laundering

The Bank has established an anti-money laundering framework in accordance with the Anti-money laundering Law of the People's Republic of China (中華人民共和國反洗錢法), Guidelines for the Assessment of Money Laundry and Terrorism Financing Risks and Categorized Management of Customers of Financial Institutions (金融機構洗錢和恐怖融資風險評估及客戶分類管理指引) and other laws and regulations. The Bank has also established the relevant management system and operation procedures to identify, measure, monitor, alert and control the risk of money laundry during the entire operation of the Bank. The Board of Directors is the highest authority of Dongguan Rural Commercial Bank in respect of the decision on money laundry risk management and is responsible for the approval of strategy, policy and measures for money laundry risk event. The senior management is responsible for the execution of the anti-money laundering policy and system of the Bank and the coordination of the implementation of the Bank's anti-money laundering strategy, policy, system, procedure and measure by all departments. It shall be responsible for the implementation of money laundering management policy, process and measures, and the money laundry risk in operation. The Internal Control and Compliance Department shall oversee the management of money laundry risk at the head office level and is mainly responsible for (i) appointment of a responsible officer to take daily charge of the management of money laundry risk; (ii) preparation and implementation of the basic strategy, policy, system, procedure and measure of money laundry risk management; (iii) determination of the standards, inspection, analysis of money laundry risk and evaluation of the results of our money laundry risk management; (iv) development and promotion of tools and methods for management of money laundry risk and coordination of inspection and management of the risk of our customers; and (v) report to the responsible senior management on money laundry risk incidents and the management of money laundry risk.

We have established a set of risk measurement indices covering four major factors, including their nature, location, business (including financial product and services) and industry (including profession) in accordance with the applicable laws and regulations. A comprehensive risk measurement matrix has been derived to represent sub-risk factors under the four major factors according to the characteristics of the industry, type of business, size of operation and scope of customers. Through qualitative and quantitative analysis, the risks are measured and assessed with various weights to reflect the risks of customers in different classifications so that resources can be properly allocated to each customer in accordance with his risk assessment.

The measurement of customer risk shall be determined by going through the whole process of information collection, information selection and analysis, preliminary assessment, re-assessment and conclusion, to finalize the risk classification for the customers.

REPUTATION RISK MANAGEMENT

Reputation risk refers to the risk of negative comments from relevant interested parties regarding our Bank arising from our operation, management and activities and other external events. Our Bank seeks to effectively monitor, identify and control our Bank's reputation risk.

The Board of Directors bears the ultimate responsibility for reputation risk management. It is mainly responsible for clarifying the responsibilities, authorities and reporting mechanism of senior management on reputation risk management, coordinating and formulating the management strategy and policy of reputation risk and to continuously and effectively monitor, control and report reputation risk, and timely respond to reputation events.

The senior management is responsible for leading the reputation risk management of the whole bank, mainly performing the following duties: (i) implement the reputation risk management strategy and policy formulated by the Board of Directors and ensure the effective operation of the relevant system of reputation risk management; (ii) guide the functional management departments of reputation risk to implement our Bank-wide reputation risk management and clarify their responsibilities, authorities and reporting mechanism related to reputation risk management, and allocate reputation risk management resources appropriate to the nature, scale and complexity of our Bank's business; and (iii) clarify the responsibilities of each department of the Bank in reputation risk management and ensure their implementation of reputation risk management system and measures.

The General Office of our Bank is the leading department of reputation risk management, which mainly performs the following duties: (i) formulating our Bank's reputation risk management system and assisting the senior management to determine the responsibilities of each department in reputation risk management; (ii) taking the lead in coordinating and handling our Bank-wide reputation risk events, accepting the reputation events submitted by other departments of the head office and first-level branches, assisting the monitoring and handling of reputation risk events of affiliated entities of the Group and reporting them to its management or the Board of Directors according to the severity of reputation events; (iii) taking the lead in the identification, assessment, control, monitoring, reporting and evaluation of reputation risk to ensure that each step of reputation risk management is carried out in an orderly manner; (iv) releasing relevant information regarding significant reputation risk events to the public in accordance with the principles of timeliness, appropriateness, openness, transparency, orderliness, and effectiveness; (v) establishing reputation risk monitoring mechanism, paying real-time attention to public information, carrying out scenario analysis on all kinds of reputation risk events that may occur, formulating plans, and clarifying false information and incomplete information in time; (vi) responsible for our reputation risk management assessment, inspection and evaluation; (vii) responsible for the statistical analysis of reputation risk of our Bank, record and storing the data and information related to reputation risk management, timely evaluating the effectiveness of response measures to reputation risk events, and promptly adjusting the response plan; (viii) cultivating the reputation risk management culture among our Bank's employees and our Bank, and organizing reputation risk related training to promote the awareness of staff and improving reputation risk prevention and control; (ix) making clear the requirements of news and public opinion release, timely and accurately releasing information to the public, actively accepting the supervision of public opinion, and providing convenience and necessary guarantee for normal news interview activities in accordance with relevant requirements; and (x) determining the person and unit specially assigned for information release and contact telephone number to facilitate inquiries from journalists and the public.

Specifically, our Bank has employed three methods: (i) a proactive method which focuses on the early prevention of reputation risk; (ii) standardization of the process of dealing with adverse public events; and (iii) public opinion analysis, and use the professional monitoring analysis report to train and improve the skills and capability of our Bank's reputation risk management team.

INFORMATION TECHNOLOGY RISK MANAGEMENT

Information technology risk refers to the risks caused by natural factors, human factors, technological loopholes and flawed management in the course of our Bank's use of information technology. The goal of information technology risk management is to realize the identification, measurement, monitoring and control of our Bank's information technology risk through the establishment of an effective mechanism to ensure the safe, sustainable and steady operation of our Bank's information system, to promote business innovation, and to enhance our Bank's core competitiveness and sustainable development ability.

The scope of our Bank's information technology risk management strategy includes but not limited to (i) information classification and protection; (ii) information system development, testing and maintenance; (iii) information technology operation and maintenance; (iv) access control; (v) physical security; (vi) personnel safety; and (vii) business continuity plan and emergency response.

The Information Technology Department (信息科技部) is the main department in charge of the operation of our Bank's information technology risk management and is responsible for (i) the information security, information system development and maintenance, information technology operation and business system continuity infrastructure management of our Bank; (ii) coordinating the account transactions, system parameter changes and event management related the information system; and (iii) clearly defining the internal management responsibilities among various departments, and ensuring that the personnel of each position have corresponding professional knowledge and skills.

The Comprehensive Risk Management Department is the main department in charge of our Bank's information technology risk assessment and supervision. It is responsible for (i) coordinating the formulation of relevant information technology risk management strategies, especially in terms of information security, business continuity plan, and compliance risk, (ii) providing advice and relevant compliance information for business departments and the Information Technology Department; and (iii) providing continuous information technology risk assessment on existing information systems and new information projects, tracking the implementation of rectification opinions, and supervising and assisting the technology department in handling information security threats and non-compliance events.

Audit Department is responsible for formulating the information technology audit system and process, formulating and implementing the information technology audit plan, and auditing the information technology management and major events.